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The art of redefining success, MoneyGram and Ripple edition (Updated)



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For all its talk about imminently disrupting cross-border payments, Ripple Labs, the cryptocurrency-startup that likes to make-out it's in with the mainstream banking boys, has had very little to show for its efforts in terms of real-world applications or relationships.

With two exceptions. A much touted partnership [with Santander \(https://www.coindesk.com/santander-to-connect-latin-america-to-ripple-powered-remittance-service\)](https://www.coindesk.com/santander-to-connect-latin-america-to-ripple-powered-remittance-service). And an

even more hyped up and highly-promoted relationship with \$125m [MoneyGram \(https://www.ft.com/content/doc3079a-91c5-11e9-aea1-2b1d33ac3271\)](https://www.ft.com/content/doc3079a-91c5-11e9-aea1-2b1d33ac3271), the Nasdaq-listed worldwide remittance specialist.

In June 2019 shares in MoneyGram shot up when Ripple (which prefers to be known as a blockchain startup) announced that it had agreed to invest up to \$50m in the company. This followed [an initial announcement in January 2018 \(https://www.ft.com/content/d00cdaa5-1d6d-34af-941a-c6e79c1cf6ed\)](https://www.ft.com/content/d00cdaa5-1d6d-34af-941a-c6e79c1cf6ed), that Moneygram had partnered up with Ripple to test the use of its digital currency to move customer funds.

One of the conditions of that investment was that MoneyGram would commit to using Ripple's XRP cryptocurrency and xRapid platform — which handles XRP transfers — for a chunk of its core business.

Walking into the deal MoneyGram wasn't [in the fittest of states: \(https://www.ft.com/content/4b3317fa-7a7b-11dc-9bee-0000779fd2ac\)](https://www.ft.com/content/4b3317fa-7a7b-11dc-9bee-0000779fd2ac)



But come November 2019, MoneyGram's Chairman and CEO Alex Holmes was sitting on stage with Ripple CEO Brad Garlinghouse declaring that up to 10 per cent of MoneyGram's US-Mexico business was already being handled by Ripple systems.

What. A. Great. Deal.

Or so you would have thought.

Flash forward to Tuesday this week and an 8-K SEC filing from MoneyGram revealed [some intriguing titbits \(http://ir.moneygram.com/news-releases/news-release-details/moneygram-international-reports-fourth-quarter-and-full-year-4\)](http://ir.moneygram.com/news-releases/news-release-details/moneygram-international-reports-fourth-quarter-and-full-year-4) about the nature of Ripple's and MoneyGram's relationship.

It turns out Ripple has been paying a significant amount of subsidies cash to MoneyGram's business since buying into the company in June. In the third and fourth quarter alone the Ripple benefits amounted to \$11.3m.

What's more, until a consultation with the SEC**, MoneyGram had been more than happy to book these cash flows as revenues. Due to the SEC guidance, however, it has now had to restate fourth-quarter guidance to account for Ripple payments as "contra expenses".

As the 8k states (our emphasis):

At the time the Company issued fourth-quarter guidance, it assumed **Ripple market development fees would be accounted for as revenue, consistent with the third quarter treatment.** As a result of the change, the Ripple **financial benefit of \$8.9 million in the fourth quarter and \$2.4 million in the third quarter is now accounted for as offset to operating expenses, in Transaction and Operations Support and is no longer included in revenue.** Global Funds Transfer segment revenue was \$299.7 million, down 6% from the fourth quarter of the prior year. Within the segment, money transfer revenue was \$285.9 million, a decline of 6%, and bill payment revenue was \$13.8 million.

So what constitutes "Ripple market development fees"?

Are they a subsidy Ripple is paying to MoneyGram to compensate them for loss of earnings for using their system? Some sort of kickback? Or a goodwill gesture, because why not?

We asked MoneyGram but it declined to comment.

To understand the value Ripple may or may not be adding to MoneyGram's business, it's worth looking back at Ripple's multi-pivoting evolution since it was founded in 2012.

The origins of Ripple — officially incorporated as Ripple Labs — are [complex \(https://pres-tonbyrne.com/2018/09/20/for-the-last-time-ripple-created-xrp/\)](https://pres-tonbyrne.com/2018/09/20/for-the-last-time-ripple-created-xrp/) and murky*. As is its relationship and ongoing influence on its in-house cryptocurrency XRP, over which - unlike most cryptocurrencies - detractors argue Ripple commands outsized influence and even control on.

Since 2014 Ripple has been trying to position its technology built around the XRP cryptocurrency as a cost effective means for banks and others to transfer funds internationally.

A [white paper \(https://ripple.com/files/xrp_cost_model_paper.pdf\)](https://ripple.com/files/xrp_cost_model_paper.pdf) issued in 2016 made the case that banks could achieve major cost and capital savings by using XRP in payment flows. Indeed, much like an ETF structure, the system aims to generate liquidity by inviting market-makers to trade around the continuous arbitrage opportunities created by flows in and out of XRP relative to the price of other foreign currencies.

But getting institutions to adopt the cryptocurrency-dependent system has been no easy task. For compliance and regulatory reasons, banks are naturally cautious of getting involved with untraceable cryptocurrencies. They're also unlikely to want to become dependent on any currency system whose growing adoption bestows ever greater windfalls and power on to just a handful of original accumulators.

To get around these constraints, Ripple started trying to sell software to banks that acted as a bidirectional messaging system, akin to SWIFT's, that had no dependency on cryptocurrency anywhere.

While Ripple frequently claimed large numbers of clients in the banking sector were using their tech, it offered little in the way of detailed transaction information.

What Ripple CEO Brad Garlinghouse has sometimes noted is that Ripple as a whole does "billions of dollars of transactions that are growing 100 per cent quarter over quarter".

In the fourth quarter of 2018 Ripple formalised its XRP-based payments system, calling it xRapid. More recently, it has renamed the system On-demand-liquidity (ODL). MoneyGram has been its most high-profile official user.

In a conversation with the FT in August 2019, Ripple's CEO Brad Garlinghouse said over 200 financial institutions were using Ripple technologies globally.

When we probed Mr. Garlinghouse on whether such institutions were receiving incentives to sign on with Ripple, he noted “it depends upon the shape and size and type and how high a priority” they are.

When pressed on Ripple’s own profitability, Mr. Garlinghouse noted that Ripple, the company, was cash flow positive. How much of that cash flow was coming from service provision as opposed to sales of pre-existing XRP stock was less clear.

Asked if XRP was keeping everything cash flow positive at Ripple Labs, Mr Garlinghouse answered: “Well XRP is one source. I don’t know how to answer that because if you took away our software revenues, that would make us less profitable. If you took away all our XRP, that makes us less profitable. So I don’t think about it as one thing.”

He clarified later: “We would not be profitable or cash flow positive [without selling XRP], I think I’ve said that. We have now.”

**Allegations that Ripple Labs has an unfair and vested interest in pushing XRP (given the founders’ major holdings) are usually brushed aside on grounds Ripple Labs no longer controls the XRP processing network.*

***Moneygram got in touch post publication to clarify that the consultation with the SEC referenced in the 8k was initiated by them, not the SEC. We have adapted the post accordingly.*

Update 8.30pm UK time: MoneyGram have since filed a 10k revealing that the compensation from Ripple comes in the form of XRP cryptocurrency.

The Company is compensated by Ripple in XRP for developing and bringing liquidity to foreign exchange markets, facilitated by the ODL platform, and providing a reliable level of foreign exchange trading activity. We refer to this compensation as market development fees.

Related links:

[For the last time, Ripple Labs created XRP \(https://prestonbyrne.com/2018/09/20/for-the-last-time-ripple-created-xrp/\)](https://prestonbyrne.com/2018/09/20/for-the-last-time-ripple-created-xrp/)- Preston Byrne’s blog

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